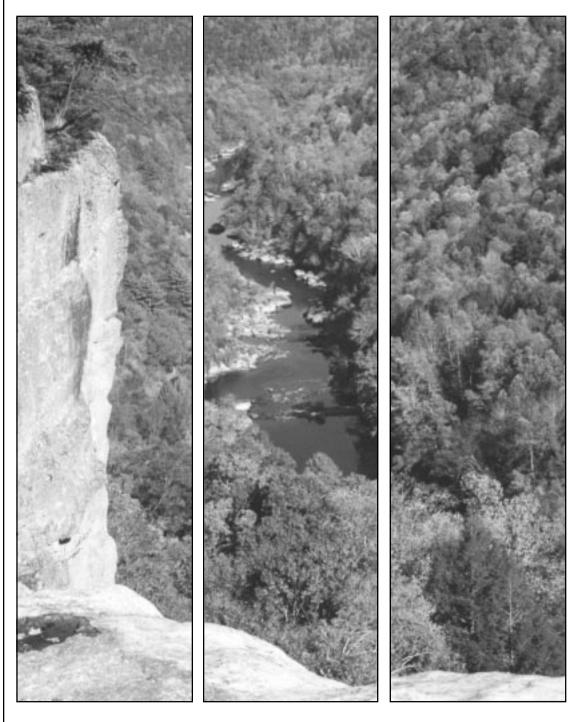
## - STATE OF TENNESSEE GROUP INSURANCE PROGRAM ----



2002 ANNUAL PROGRAM AND FINANCIAL REPORT-



State of Tennessee
Department of Finance and Administration
Thirteenth Floor, William R. Snodgrass Tennessee Tower
312 Eighth Avenue North
Nashville, Tennessee 37243
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www.state.tn.us/finance/ins/



# STATE OF TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION INSURANCE ADMINISTRATION 1300 William R. Snodgrass Tennessee Tower 312 Eighth Avenue North Nashville, TN 37243

June 30, 2003

#### Ladies and Gentlemen:

We are pleased to submit the 2002 Annual Program and Financial Report of the Division of Insurance Administration. This unit of the Department of Finance and Administration manages insurance benefits for over 135,000 employees of and over 22,000 retirees from public sector organizations in Tennessee.

The data presented here demonstrates trends from program, statistical and financial standpoints. The financial statements reflect the fiscal year ended June 30, 2002.

Calendar year 2002 provided several significant milestones for the division. They include:

- Healthcare benefit payments by the state-sponsored self-insured plans exceeded \$700 million up 22 percent from 2001
- Due to risk sharing arrangements in the contracts with plan administrators, the healthcare plans were the recipients of over \$15 million in payments
- · Over \$11 million in "excess premiums" were returned to the retirees' Medicare Supplement fund
- · Benefit costs for the PPO and POS options continued to grow at double-digit rates for the fourth year in a row
- For the first time since the Local Education Plan was established in 1985, a school system (Dickson County) left the Plan
- Financial results for the Local Education Plan were positive for the first time in three years
- Although the margins were reduced, the State and Local Government Plans had benefit payments and administrative expenses exceed revenues for a third year in a row
- Information on the division's website was expanded to provide access to financial information and to allow electronic availability of forms and publications
- Administrative costs represented 8.3 percent of total plan expenses during 2002
- Despite a 21 percent increase in total plan membership due to enrollment growth in both the Local Education and Local Government Plans over the past five years, the number of employees assigned to the division has not increased
- Steps were initiated to ensure timely compliance with the new privacy, security and data transmittal requirements established through the Federal Health Insurance Portability and Accountability Act

It is our intent to demonstrate through this report our continuing commitment to

- Provide affordable, quality benefits to public sector employees and retirees
- Expand the use of electronic communication
- Improve computer systems to provide for the effective recording of eligibility and accounting activity
- Sponsor managed care health plans with accessible and consistent provider networks
- · Conduct effective assessments of trends in healthcare utilization and benefit costs
- · Hold our contract partners accountable for their performance
- Demonstrate value to plan participants when they compare benefit payments with employer and employee contributions

While the State Group Insurance Program sponsors the coverages and programs reviewed in this report, we work in partnership with ten contractors and a number of other state agencies to deliver services to program participants. The results reported here reflect their contribution, as well.

Sincerely,

Chiphud Chiphu— Richard Chapman, Director

M. D. Goetz Vr., Commissioner

# COVER

## **COVER PHOTO**

Angel Falls Overlook Big South Fork National River and Recreation Area

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## **Division Overview**

The Division of Insurance Administration operates within the State of Tennessee's Department of Finance and Administration. A committed staff of 39 works to administer health, dental and life insurance coverages for over 269,000 public sector employees, retirees and their covered dependents.

In addition to insurance coverages, the division also administers an Employee Assistance Program and a State Employee Wellness Program. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their physical and mental health.

State Group Insurance Program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who elect to participate in one of the state-sponsored plans. Various quasi-governmental and nonprofit agencies receiving state support may also elect to participate in the Local Government Plan.

Currently, the Preferred Provider Organization (PPO), administered through BlueCross BlueShield of Tennessee, is available to all participants.

A Point of Service (POS) option is also available statewide. POS offerings in 2002 included: BlueCross BlueShield – West and Middle and John Deere Health – East.

The program also offers Health Maintenance
Organizations (HMOs) in 62 of Tennessee's 95 counties.
HMO offerings in 2002 were: Aetna U.S. HealthCare
Memphis, Aetna U.S. HealthCare Nashville, BlueCross
BlueShield West, John Deere Health Chattanooga, John
Deere Health Knoxville and John Deere Health Tri-Cities.

In addition to health insurance, optional dental coverage, underwritten and administered by Fortis Benefits Insurance Company, is available to participants in all three plans. State employees are provided basic term and accidental death and dismemberment through Fort Dearborn Life while the optional term and universal life coverages are underwritten by Unum/Provident Life and Accident.

#### **Enrollment Highlights**

Total Group Health Lives	269,957
Employees:	
State PPO	34,142
State HMOs	24,432
State POSs	13,655
Local Education PPO	26,700
Local Education HMOs	8,543
Local Education POSs	9,738
Local Government PPO	7,753
Local Government HMOs	7,915
Local Government POSs	5,995
Total Group Health	138,873
Optional Dental Plans	34,328
Optional Life Insurance Products	66,405
Retiree Medicare Supplement	21,361

#### Point of Service (POS) Service Area



#### Health Maintenance Organization (HMO) Service Area



## Governance

The authorization for providing group insurance benefits for public officers, state, local education and local government employees and retirees is found in Chapter 27 of Title 8, Tennessee Code Annotated.

The benefit plans authorized by this legislation are governed separately by three committees identified as the State, Local Education and Local Government Insurance Committees. Each of these committees represents the interests of the employer(s) and their employees and retirees in financially separate benefit plans.

The responsibilities of each committee can be summarized under four broad areas:

- 1 To establish the benefit plans offered.
- 2 To approve premiums necessary to fund plan operations.
- 3 To provide for the administration of certain plan functions through the selection of contractors and monitoring of vendor performance.
- 4 To establish and review policy related to eligibility, benefits and appeals.

#### **Committee Members**

C. Warren Neel, Ph.D., Chairman — S, E, G

Commissioner

Department of Finance and Administration

John G. Morgan — S, E, G

Comptroller of the Treasury

Steve Adams — S, E, G

State Treasurer

Anne Pope — S, E

Commissioner

Department of Commerce and Insurance

Jeannie Bellephant — S

Employee Representative

Neal Wormsley — S

Higher Education Representative

Nat Johnson — S

Designee, Department of Personnel

Linda McCarty — S

Tennessee State Employee Association

Tom Spillman — S

**Employee Representative** 

Donna Barber - E

Middle Tennessee Teacher Representative

Jim Jones — E

Designee, Department of Education

Josephine King — E

West Tennessee Teacher Representative

Phillip White — E

Tennessee School Boards Association

Clark Justis — E

East Tennessee Teacher Representative

Randy Williams — G

Tennessee Municipal League

Bob Wormsley — G

Tennessee County Services Association

S - State Insurance Committee

E - Local Education Insurance Committee

G - Local Government Insurance Committee

## **Contract Partners**

#### BlueCross BlueShield of Tennessee

Providing for administration of healthcare coverage for plan members in the Preferred Provider Organization (PPO), Point of Service (POS) Middle and West, Health Maintenance Organization (HMO) Western Region and Medicare Supplement Programs.

#### John Deere Health

Providing for administration of healthcare coverage for plan members in the Point of Service (POS) East and Health Maintenance Organization (HMO) East.

#### Aetna U.S. Healthcare

Providing for administration of healthcare coverage for plan members in the Health Maintenance Organization (HMO) Memphis and Nashville.

#### Fortis Benefits Insurance Company

Providing dental insurance to participating plan members statewide.

#### Unum/Provident Life and Accident Insurance Company

Providing optional term and universal life insurance to state plan members who choose to enroll in this coverage.

#### Fort Dearborn Life Insurance Company

Providing basic term and accidental death and dismemberment insurance for state plan members enrolled in a healthcare option.

#### United Behavioral Health

Providing employee assistance program (EAP) services to all plan members and administration of mental health and substance abuse coverage for plan members in the Preferred Provider Organization (PPO) and Point of Service (POS) healthcare options.

#### **Gordian Health Solutions**

Providing support for wellness program services for central state plan members enrolled in a healthcare option.

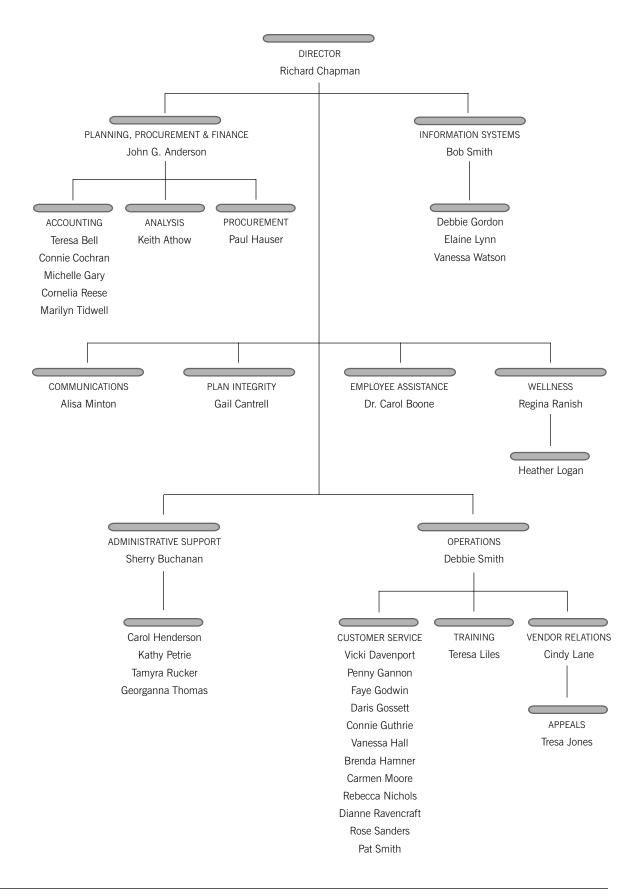
#### The Medstat Group

Providing analytical services to assess healthcare utilization and claims-based cost for our population.

#### William M. Mercer, Inc.

Providing benefits and administrative consultant services to the division.

## **Organization Chart**



## **Accomplishments**

At year-end, the number of public sector employees in Tennessee covered by the three state-sponsored plans increased to over 138,000, a slight increase over the prior year. Total lives covered exceeded 269,000.

The appeals processes established by the Insurance Committees received 388 requests for a benefits review. Of those, 313 cases were resolved prior to being presented to the Staff Review Appeals Committee. Of the remaining 75 cases reviewed by committee, 31 were approved, 38 denied and 6 deferred.

The division processed 40 requests for a waiver of premium due to disability with 35 requests being approved and 5 denied.

During 2002, premium quotes were requested from 65 agencies interested in joining the Local Government Plan. Of those, 36 agencies joined the Plan.

To assist customers in gaining a better understanding of the issues contributing to increasing healthcare costs, the division's website was expanded to include a new financial section. Information includes demographics, utilization of healthcare services, claims payments and other issues impacting plan expenses.

A late applicant process was reinstituted allowing eligible individuals to enroll in the plan through a medical underwriting or proof of insurability process. Of the 766 individuals who applied, 569 were approved and allowed to enroll in coverage.

A survey was conducted of 122 school systems that participate in the Local Education Plan for the purpose of verifying that at least 45 percent premium support is provided to teachers as required in TCA 8-27-303(j).

Communication projects during the year included the printing and distribution of updated Insurance Handbooks to all members and the update of brochures relating to the appeals process and the requirements to continue insurance at retirement.

The EAP increased its employee utilization in the area of direct counseling services from 4.8 percent to 5.2 percent. This brought the total utilization for counseling and training services to 10.2 percent.

The division's eligibility team reviewed 81 cases. Of these, 58 were approved and 23 denied.

Working with the Medstat Group, the division began the transition from System 2 to their next generation software, Advantage Suite. This new system will better enable the division to examine the factors impacting plan benefit costs and will provide detailed pharmacy cost and utilization information—one of the major drivers of plan costs.

The division provided analytical support as well as cost and use data for numerous legislative proposals and state agency studies related to healthcare issues.

Monitoring of contractor performance resulted in a decrease in total noncompliance penalties assessed (\$185,300—down from \$830,100 in 2001) from plan administrators and insurance companies under contract with the Insurance Committees. This decrease reflects welcomed improvement in contractor performance in service delivery to members.

The division provided procurement and coordination for State of Tennessee HIPAA Compliance Consulting Services. HIPAA, the Health Insurance Portability and Accountability Act of 1996, provides rules addressing the privacy, security and transmission of an individual's protected health information.

Through a competitive procurement process, Harris Health Trends was selected for the continued provision of the State Employee Wellness Program and Buck Consulting was selected to provide Benefits Consulting Services.

Through a competitive procurement process, MedAmerica was selected as the company that will make available optional long-term care insurance to state plan members and their eligible dependents in 2003.

The division received the final payment under the Medicare supplement contract with BlueCross of "excess premiums" for the three years between 1998 and 2000. The combined payments represented nearly 19 percent of the premium paid by retirees for coverage through the fully insured policy. These funds, which total over \$27 million since 1992, are used to offset premium increases for retiree plan members.

## **Accomplishments**

The division received combined payments in excess of \$13 million under the 1999 and 2000 risk sharing provisions of the PPO and POS contracts. These payments are used to improve the Plans' financial condition that has been impacted by benefit payments and administrative expenses that have substantially exceeded premiums and other revenues for three years.

The division provided administrative support to the Comptroller's Office, Department of Commerce and Insurance and TennCare Bureau in a number of procurement activities.

A member of the division staff was appointed to the Health Planning and Advisory Board, an entity established in 2002 to review certificate of need criteria and prepare a state health plan.

## **Opportunities**

Given the double digit increases in medical plan cost that are anticipated to occur in the future, the division will continue to work with the Insurance Committees in order to develop future strategies to mitigate the impact of these increases for plan members and their employers.

Of significant note, the division will be implementing the privacy and security requirements for individual protected health information as required under the Federal HIPAA rules and regulations.

The current basic term life insurance benefit, contracted through Fort Dearborn Life Insurance, will expire at the end of 2003. The division will issue a Request for Proposals to re-procure this service.

The State Employee Wellness/Health Promotion Program will be transitioned to a new contractor based on competitive procurement last year. The division will work with Harris Health Trends to ensure a successful program transition during the spring of 2003.

The Benefits Consulting Services contract will be transitioned to a new contractor based on competitive procurement last year. Buck Consultants succeeded Mercer Human Resources Consulting, who had provided these services to the Insurance Committees for over 15 years.

Working with the contracted vendor, MedAmerica, the division will market and implement the new long-term care insurance product for eligible individuals in the State Plan. A significant amount of material will be distributed by available means to inform and educate employees to this valuable employee benefit.

During 2003, a number of contracts will either be extended or the services will be continued as a result of a competitive procurement process. These include Aetna HMO administrative services for Nashville and Memphis; Unum Provident Life Insurance for optional term and universal life insurance for state employees; BlueCross BlueShield of Tennessee for Point of Service (POS) administrative services; and United Behavioral Health for Integrated Employee Assistance and Mental Health Substance Abuse benefits.

The Employee Assistance Program will continue to enhance the quality and access to EAP services, striving to maintain a yearly utilization rate of 5 percent for employee counseling contacts.

Communication projects scheduled for the upcoming year include the update and distribution of Insurance Preparer Policy and Procedures manuals and Plan Documents specifically designed for the three separate state-sponsored plans. Additionally, the division will make these documents available via the website, encouraging agencies with internet access to download the documents for use to reduce the cost associated with printing and distribution.

Shifts in plan membership, the timing of administrative contract renewals and the absence of HMO options in certain rural areas will likely encourage the Insurance Committees to consider future plan offerings for healthcare coverage. With increasing benefit payments pushing up premiums, plan participants and their employers will likely have to consider both benefit changes and ways to modify premium sharing to keep the coverage affordable given the income characteristics of a diverse public sector work force.

## **State Plan**

State employees, University of Tennessee and Board of Regents employees comprise the State Plan. This plan provided coverage for 72,229 active employees, COBRA participants and qualified retirees.

For 2002, the portion of plan members selecting the POS option continued to increase, growing from 13 percent to 17 percent of employees. HMO selection declined from 38 percent for 2001 to 35 percent in 2002 while PPO participation declined by one percent to 43 percent.

Employees may choose to participate in optional dental insurance. One prepaid dental plan and one preferred provider dental plan were available. State employees electing dental coverage totaled 27,565 at year end, an increase of 1,364 during the calendar year.

During 2002, Fort Dearborn received just over \$7.4 million in premium for the basic term life and the accidental death and dismemberment coverages. Expenses reported for 2002 included \$6 million in basic term and accidental death and dismemberment claims and \$1.4 in optional accidental death and dismemberment claims. Administrative, reserving and conversion expenses and taxes were \$510,653.

Employee term life benefits exceeded \$4.9 million and were paid on behalf of 147 employees who died during 2002. An additional \$1.1 million in employee accidental death and dismemberment benefits were provided by the plan. Employees received \$420,000 in benefit payments due to the death of a covered dependent and over \$272,000 due to an accident involving the death or dismemberment of a dependent.

At 2002 year end, 12,714 employees were covered under the optional term life insurance plan, in addition to 5,941 spouses and 6,957 children. The coverage for employees exceeded \$859 million, spouse coverage was over \$118 million and the child term rider amount was \$27 million. Premiums for 2002 were \$4 million, while claims totaled \$2.2 million.

The optional universal life covered 7,566 employees and 1,353 spouses who maintained over \$318 million in coverage. About \$2.8 million of the annual premium

paid for the life benefit with annual claims of \$2.8 million. At the end of December, the employee cash value had grown to more than \$58.2 million.

Benefit payments by the State Plan continued to increase by double digit rates for the fourth year in a row. For the PPO option, payments per capita increased by 15.1 percent to \$3,950 for 2002. Inpatient benefits increased by 14.9 percent while outpatient costs grew by 15.2 percent. The increase in inpatient payments was due to both increased utilization and a 7.4 percent increase in the cost of each inpatient day to \$2,493 for 2002. Outpatient costs were impacted by continuing utilization growth — the number of services per covered person increased to 57 — while the cost per service which had remained relatively constant between 1993 and 2000 increased for the second year in a row — by eight percent for 2002.

Payments per capita for the POS increased by 15.7 percent to \$2,828 for 2002. Inpatient payments, which represented less than one quarter of the benefit payments, increased by 15.5 percent due to a combination of increased utilization and an increase in payments per inpatient day. Payments for outpatient services increased by 15.8 percent.

Pharmacy benefit payments for both the PPO and POS options doubled between 1999 and 2002. For the PPO, pharmacy benefit payments were \$904 per capita — a 23.3 percent increase over 2001. For the POS, payments were \$615 per capita — a 20.6 percent increase over 2001.

The State Plan paid 84 percent of the eligible PPO expenses during 2002 while 90 percent of the POS eligible expenses were covered. Both options increased their share by one percentage point when compared to 2001. The benefits paid by the HMO were 92 percent of eligible expenses — constant when compared to 2001.

Current and future plan costs will continue to be influenced by aging employees and retirees who prefer the PPO. Further focus will continue to be placed on the impact of increasing pharmacy costs and the shift between inpatient and outpatient services.

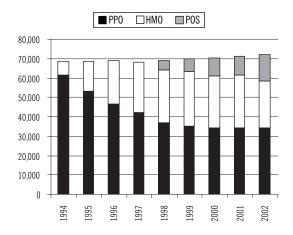
#### Health Contracts — December 31, 2002

#### Preferred Provider Organization (PPO) BlueCross BlueShield 34.142 47.3% Percent of Total Health Maintenance Organization (HMO) Aetna U.S. HeathCare Nashville 7,869 Percent of Total 10.9% 4,749 Aetna U.S. HealthCare Memphis Percent of Total 6.6% 2,766 **HMO** Blue 3.8% Percent of Total John Deere Health Knoxville 4,747 Percent of Total 6.6% John Deere Health Chattanooga 2,114 Percent of Total 2.9% John Deere Health Tri-Cities 2,187 Percent of Total 3.0% Point of Service (POS) West — BlueCross BlueShield 2,913 4.0% Percent of Total Middle — BlueCross BlueShield 7,729 10.7% Percent of Total East — John Deere Health 3,013 Percent of Total 4.2%

#### **Optional Insurance Contracts**

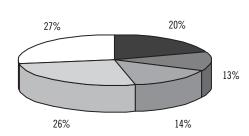
	DEC. 31, 2002	DEC. 31, 2001
Dental Insurance		
Prepaid Plan	20,990	20,855
Preferred Provider Plan	6,575	5,346
Total Dental Insurance	27,565	26,201
Optional Life Coverages		
Term Life	25,612	24,607
Universal Life	8,919	8,868
Special Accident	30,875	30,676
Perma Plan	999	1,112

#### **Total Contracts by Healthcare Option**



#### State Plan Demographics 2002



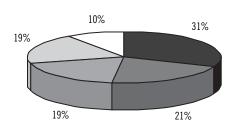


Total lives: 66,175

20%

19%





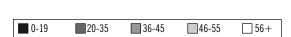
Total lives: 30,941



21%

Total lives: 52,473

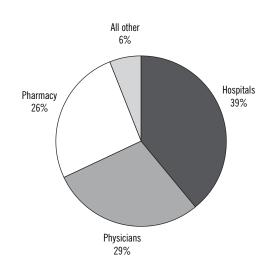
State HMO



#### **Benefits Distribution by Provider Type (Paid Claims)**

State Plan PPO, POS and HMO
Total Paid Claims: \$401,285,584
(amount reflects all health vendors submitting data to Medstat in 2002)

Total self-insured paid claims for 2002 increased from \$333,488,532 in 2001. As with the Local Education and Local Government plans, the proportionate amount paid to each provider type remained similar to 2001, with an increase to pharmacies and a decrease to physicians.

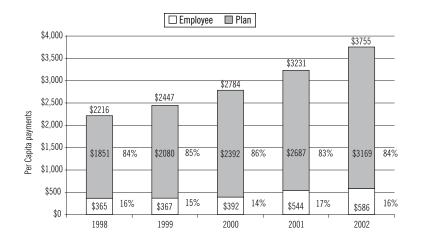


#### **State PPO Per Capita Payments**

Employee portion represents deductibles and coinsurance/ copays.

Percentages indicate portion of medical expenses paid by employee or plan.

For plan year 2001, annual deductible was raised to \$250/\$625 and out-of-pocket maximums were raised to \$1250/\$2500.

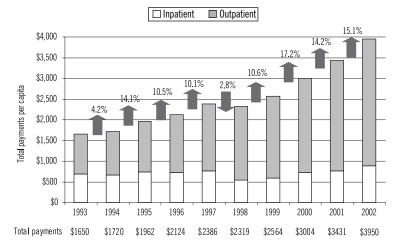


#### State PPO Total Payments Per Capita

Includes all plan payments and patient payments for deductibles and copayments.

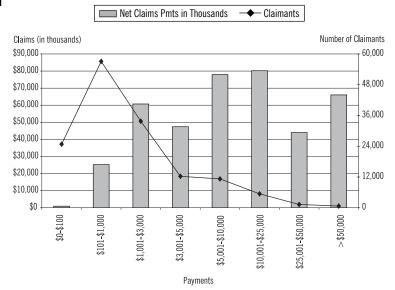
For 2002, payments for outpatient services represented 78 percent of the total — up from 58 percent in 1993. Outpatient payments grew at a rate of 24 percent per year between 1993 and 2002.

Payments for inpatient services grew at 3 percent per year.



#### Paid Claims Distribution by Individual

About 5 percent of the plan members received benefits in excess of \$10,000 and accounted for just over 47 percent of the benefit payments. The average benefit for this group was \$25,760.



## **State Employee Wellness Program**

The State Employee Wellness Program was designed to improve awareness of the factors that can affect health and longevity, as well as to enable employees to take increased responsibility for their health by adopting healthier life-styles. The program is funded, in part, through flexible benefits savings. The information on this page provides components and participation for the various programs offered by the State Employee Wellness Program.

#### Screenings

In 2002, screenings were held at 29 sites. A total of 2,962 participants were screened, averaging 102 participants per site. Results showed 51 percent of participants having elevated cholesterol levels and 31 percent with elevated blood pressure. Additionally, 32 percent of participants were 30 percent or more above ideal body weight and 59 percent of participants indicated that they exercised 3 times per week or less.

#### Focused Intervention

Employees participating in screenings who were identified as having two or more high risks were invited to participate in the Focused Intervention or high-risk program. The program was used by 1,204 employees or 34 percent of those eligible. Each participant receives intervention telephone calls and follow-up calls by a health educator over the course of a year.

#### Toll-Free HealthLine

The HealthLine received 5,003 calls. Health educators answer this line and initiate calls to participants as well. Outgoing calls numbered 8,696.

#### Seminar Series

During 2002, one new title was added to the seminar program: Oh, My Aching Back. A total of 3,204 employees participated in one or more of the seminars presented.

#### Babies First Prenatal Program

Designed to encourage early prenatal care, the program is open to female employees, spouses and dependents in the Preferred Provider Organization (PPO) or a Point of Service (POS) plan administered by BlueCross BlueShield. The program provides a \$50 credit or refund to the mother's deductible and copies of two books dealing with newborns. Participation in the program totaled 366 in 2002.

#### Working Well Newsletter

Working Well is an informative newsletter highlighting the State Employee Wellness and Employee Assistance Programs. The newsletter was published six times in 2002 and distributed via state payroll envelopes to approximately 45,000 employees.

#### Fitness Center Discount Program

Fitness centers across the state provide membership discounts to participants in the State Group Insurance Program.

The State Employee Wellness Program had a total of 21,435 employee contacts during 2002.

## **Local Education Plan**

In 1985, the Tennessee General Assembly authorized creation of an insurance plan for local education employees. Funds were appropriated to pay part of the premiums for participating employees beginning January 1, 1986. School systems within the state may join the Local Education Plan or provide alternative coverage that is equal or superior to the state-sponsored program.

At 2002 year end, 126 school systems and educational co-ops were participating in the Local Education Plan. Plan enrollment was 44,981, up from 44,288 in 2001. Year-end enrollment in the PPO decreased slightly to 26,700, while HMO enrollment stood at 8,543. POS enrollment totaled 9,738.

The self-insured Local Education Plan offers only health insurance. Life insurance is not included, nor is it available as an option through the state-sponsored plan.

Dental insurance is available as an option to participants in the Local Education Plan. Participation in the dental plan increased from 3,937 in 2001 to 4,389 in 2002.

In 2002, there was a 12.2 percent increase in the per capita payments for PPO members. The increase was almost totally attributable to increasing outpatient costs which were pushed by increased utilization and price. The cost of hospitalization increased to \$2,386 per day but was offset by continued declines in utilization.

Payments by the POS option increased by 20.4 percent primarily due to increasing outpatient expenses. Increases in utilization of services pushed up both inpatient and outpatient benefit payments. Per capita payments by the HMO option increased by only 10.4 percent when measured against 2001.

Pharmacy costs continued to dramatically impact benefit payments — up 26.9 percent for the PPO and 24.9 percent for the POS. The average amount paid by the plan per prescription increased to \$44.09 for the PPO and to \$40.65 for the POS.

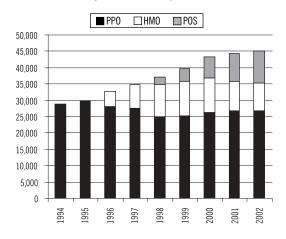
#### Health Contracts — December 31, 2002

#### Preferred Provider Organization (PPO) BlueCross BlueShield 26,700 Percent of Total 59.4% Health Maintenance Organization (HMO) Aetna U.S. HeathCare Nashville 474 Percent of Total 1.1% 536 Aetna U.S. HealthCare Memphis Percent of Total 1.2% **HMO Blue** 1,852 Percent of Total 4.1% John Deere Health Knoxville 3,340 Percent of Total 7.4% John Deere Health Chattanooga 475 Percent of Total 1.1% John Deere Health Tri-Cities 1,866 Percent of Total 4.1% Point of Service (POS) West - BlueCross BlueShield 948 2.1% Percent of Total Middle — BlueCross BlueShield 5,176 Percent of Total 11.5% 3,614 East — John Deere Health Percent of Total 8.0%

#### **Optional Insurance Contracts**

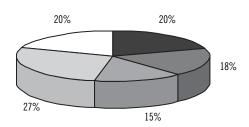
	DEC. 31, 2002	DEC. 31, 2001
Dental Insurance		
Prepaid Plan	1,565	1,430
Preferred Provider Plan	2,824	2,507
Total Dental Insurance	4,389	3,937

#### **Total Contracts by Healthcare Option**



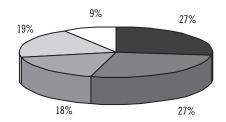
#### **Local Education Plan Demographics**

#### **Local Education PPO**



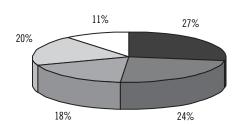
Total lives: 48,487

#### **Local Education POS**



Total lives: 19,726

#### **Local Education HMO**



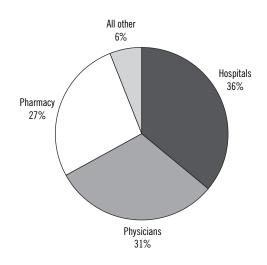
Total lives: 17,394

## **■** 0-19 **■** 20-35 **■** 36-45 **■** 46-55 **■** 56+

#### **Benefits Distribution by Provider Type (Paid Claims)**

Local Education Plan PPO, POS and HMO
Total Paid Claims: \$209,303,869
(amount reflects all health vendors submitting data to Medstat in 2002)

Total self-insured paid claims for 2002 increased from \$179,704,863 in 2001. As with the other plans, the proportionate amount paid to each provider type remained similar to 2001, with a major increase to pharmacies and a decrease to physicians and hospitals.

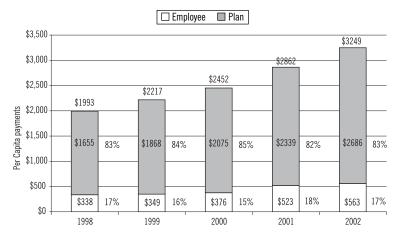


#### **Local Education PPO Per Capita Payments**

Employee portion represents deductibles and coinsurance/copays.

Percentages indicate portion of medical expenses paid by employee or plan.

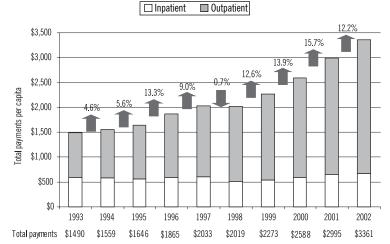
For plan year 2001, annual deductible was raised to \$250/\$625 and out-of-pocket maximums were raised to \$1250/\$2500.



## Local Education PPO Total Payments Per Capita

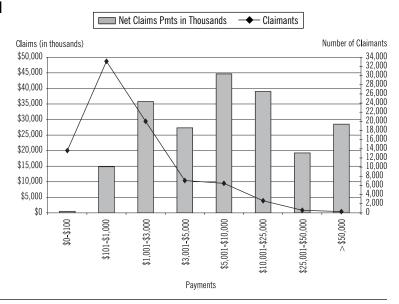
Includes all plan payments and patient payments for deductibles and copayments.

For 2002, payments for outpatient services increased to 80 percent of the total — up from 60 percent if 1993. Outpatient payments grew at a rate of 22.1 percent per year between 1993 and 2002. Inpatient grew at 1.5 percent per year during the same period.



#### Paid Claims Distribution by Individual

About 4 percent of the plan members received benefits in excess of \$10,000 and accounted for about 41 percent of the benefit payments. The average benefit for this group was \$24,575.



#### **Local Education Plan Participants**

Alamo City Schools Alcoa City Schools Anderson County Schools Athens City Schools Bedford County Schools Bells City Schools Benton County Schools Bledsoe County Schools Bradford Special School District **Bradley County Schools Bristol City Schools** Campbell County Schools Cannon County Schools Carroll County Schools Carter County Schools Cheatham County Schools **Chester County Schools** Clay County Schools Cleveland City Schools Clinton City Schools Cocke County Schools Coffee County Schools Covington City Schools **Crockett County Schools Cumberland County** Schools Dayton City Schools Decatur County Schools **Dekalb County Schools** Dickson County Schools Dyer County Schools Dyersburg City Schools Elizabethton City Schools **Etowah City Schools Fayette County Schools** Fayetteville City Schools Fentress County Schools

Franklin County Schools

Franklin Special School District Gibson County Schools Giles County Schools **Grainger County Schools** Greene County Schools Greeneville City Schools **Grundy County Schools** Hamblen County Schools Hancock County Schools Hardeman County Schools Hardin County Schools Harriman City Schools Hawkins County Schools **Haywood County Schools** Henderson County Schools Henry County Board of Education Hickman County Schools Hollow Rock - Bruceton Special School District **Houston County Schools Humboldt City Schools Humphreys County** Schools **Huntingdon Special** Schools Jackson County Schools Jefferson County Schools Kingsport City Schools Knox County Government Retirement and Pension **Board Knox County Schools** Lake County Schools Lauderdale County Schools Lawrence County Schools Lebanon - Tenth District Schools

Lenoir City Schools Lewis County Schools Lexington City Schools Lincoln County Schools Little TN Valley Education Co-op Loudon County Schools Macon County Schools Manchester City Schools Marion County Schools Marshall County Schools Maury County Schools McKenzie Special School District McMinn County Schools McNairy County School System Meigs County Schools Milan Special School District Monroe County Schools Moore County Schools Morgan County Schools Murfreesboro City Schools Newport City Schools Oak Ridge City Schools **Obion County Schools** Oneida Special School District Overton County Schools Paris Special School District Perry County Schools Pickett County Schools Polk County Schools Putnam County Schools Rhea County Schools Richard City Special School District Roane County Schools

Robertson County Schools Scott County Schools Sequatchie County Schools Sevier County Schools Smith County Schools South Carroll County Special District Stewart County Schools Sumner County Board of Education Sweetwater City Schools Tennessee Education Association **Tipton County Schools** Trenton Special School District Tri-County Vocational Schools Trousdale County Schools Tullahoma City Schools Unicoi County Schools Union City Schools Union County Schools Van Buren County Schools Warren County Schools Washington County Schools Wayne County Schools Weakley County Schools West Carroll Special School District White County Schools

## **Local Government Plan**

In 1989, the Tennessee General Assembly authorized creation of an insurance plan for local government agency and quasi-governmental agency employees. At 2002 year end, 390 counties, cities and quasi-governmental agencies were participating in the Local Government Plan.

The Local Government Plan enrollment was 21,663 at year end, a slight decrease from 22,077 in December 2001. Of the total enrollment, 7,753 participated in the PPO, while 7,915 were covered by HMOs. Enrollment in POSs totaled 5,995.

The self-insured Local Government Plan offers only health insurance. No life insurance is included, nor is it available as an option through the state-sponsored plan.

Dental insurance became available as an option to participants in the Local Government Plan in January 1993. Participation in the dental coverage at year end was 2,374.

In 2002, there was a 13.2 percent increase in the per capita payments for PPO members. The increase was only partially attributable to increasing outpatient costs which were pushed by increases in utilization and price. The impact of increases in costs of hospitalization to \$2,261 per day and increasing utilization impacted inpatient benefit payments.

Payments by the POS option increased by 22.7 percent, primarily due to increases in outpatient expenses. The rise in outpatient expenses was attributable to both increasing utilization and the cost of each outpatient service. Payments by the HMO option increased by 15.9 percent compared to the same measure in 2001.

Pharmacy cost increases impacted benefit payments during 2002. They were up by 24.9 percent for the PPO and 28.3 percent for the POS. The average amount paid by the plan for prescriptions increased to \$44.23 for the PPO and to \$46.97 for the POS.

#### Health Contracts — December 31, 2002

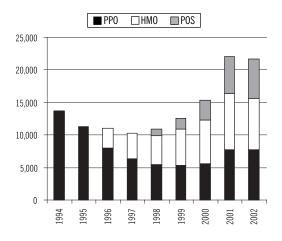
#### Preferred Provider Organization (PPO)

BlueCross BlueShield Percent of Total	7,753	35.8%
Health Maintenance Organization (HMO)		
Aetna U.S. HeathCare Nashville Percent of Total	652	3.0%
Aetna U.S. HealthCare Memphis Percent of Total	851	3.9%
HMO Blue Percent of Total	1,337	6.2%
John Deere Health Knoxville Percent of Total	3,473	16.0%
John Deere Health Chattanooga Percent of Total	772	3.6%
John Deere Health Tri-Cities Percent of Total	830	3.8%
Point of Service (POS)		
West — BlueCross BlueShield Percent of Total	874	4.0%
Middle — BlueCross BlueShield Percent of Total	2,261	10.4%
East — John Deere Health Percent of Total	2,860	13.2%

#### **Optional Insurance Contracts**

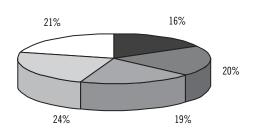
	DEC. 31, 2002	DEC. 31, 2001
Dental Insurance		
Prepaid Plan	1,478	1,552
Preferred Provider Plan	896	802
Total Dental Insurance	2,374	2,354

#### Total Contracts by Healthcare Option



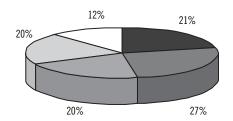
#### **Local Government Plan Demographics**

#### **Local Government PPO**



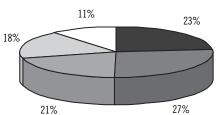
Total lives: 11,971

#### **Local Government POS**



Total lives: 9,992





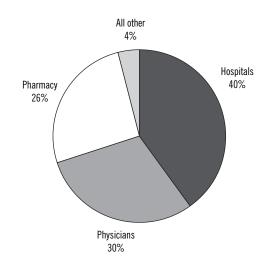
Total lives: 13,562

## **■** 0-19 **■** 20-35 **■** 36-45 **■** 46-55 **■** 56+

#### **Benefits Distribution by Provider Type (Paid Claims)**

Local Government Plan PPO, POS and HMO
Total Paid Claims: \$104,192,850
(amount reflects all health vendors submitting data to
Medstat in 2002)

Total self-insured paid claims for 2002 increased from \$79,504,393 in 2001. As with the other plans, the proportionate amount paid to each provider type remained similar to 2001, with an increase to pharmacies and a decrease to physicians and hospitals.

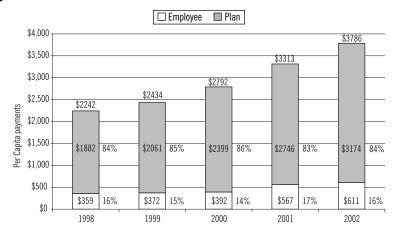


#### **Local Government PPO Per Capita Payments**

Employee portion represents deductibles and coinsurance/copays.

Percentages indicate portion of medical expenses paid by employee or plan.

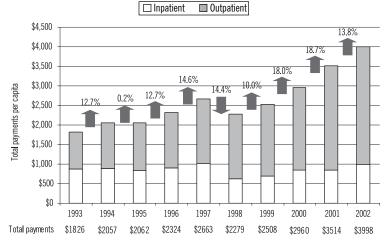
For plan year 2001, annual deductible was raised to \$250/\$625 and out-of-pocket maximums were raised to \$1250/\$2500.



## Local Government PPO Total Payments Per Capita

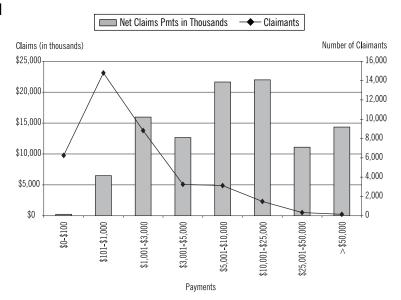
Includes all plan payments and patient payments for deductibles and copayments.

For 2002, payments for outpatient services increased to 75 percent of the total — up from 52 percent in 1993. Outpatient payments grew at a rate of 24.1 percent per year. Inpatient grew 1.4 percent per year during the same period.



#### Paid Claims Distribution by Individual

About 5 percent of the plan members received benefits in excess of \$10,000 and accounted for about 45 percent of benefit payments. The average benefit for this group was \$24,130.



#### **Local Government Plan Participants**

Access Service of Middle TN Adult Community Training Aging Services of the Upper Cumberland Aid Distressed Families -Anderson County Alamo, City of Alcohol and Drug Council of Middle TN Alpha-Talbot Utility District Anderson County CAC Appalachian Education Community Corp. Arc of Hamilton County Arc of Washington County Atoka, Town of Atwood, Town of Battered Women, Inc. Bedford County Government Behavioral Health Initiatives Belle Meade, City of Bells, City of Benton County Bethany Home Better Decisions Big Creek Utility District Big Sandy, City of **Bledsoe County** Bledsoe County EMS Bloomingdale Utility **Blount County CAA** Blountville Utility Bon Agua Lyles Utility Bondecroft Utility Bradford, City of **Bradley County Government** Bradlev/Cleveland CSA Bradley/Cleveland Services Bridge Refugee Services Bridges of Williamson County Bruceton, Town of Burns, City of Camden, City of Campbell County 911 Care of Savannah, Inc. Carey Counseling Center Carroll County Government Carroll County Highway Carthage, Town of Caryville – Jacksboro Utility Caryville, Town of CASA - Juvenile Services CASA of the TN Heartland CASA, Inc. Catoosa Utility District CEASE, Inc. Celina, City of Center for Independent

Living of Middle TN

Centerville, Town of Cerebral Palsy Center Chattanooga Endeavors, Inc. Cheatham County 911 Cheatham County General Cheatham County Highway Cheatham County Nursing Home Chester County Highway Children's Advocacy Center Children's Advocacy Center 9th Judicial District, Inc. Children's Home Chambliss Shelter Chinquapin Grove Utility District Church Hill, City of Claiborne County Highway Clarksville Housing Authority Clarksville/Montgomery County CAA Clearfork Utility District Clifton, City of Clinchfield Senior Center Cocke County Government Cocke County 911 Cocke County Highway Coffee County Government Collegedale, City of Collinwood, City of Community Development Center Community Mediation Services Community Network Services Coopertown, Town of Cornerstone County Wide Utility District Crisis Intervention Center Crockett County Government Crockett County Highway Cross Plains, City of Crossville, City of **Cumberland Community** Options, Inc. **Cumberland County** Government **Cumberland Heights** Cumberland Utility District Cunningham Utility District Dandridge, Town of Dayton, City of **Decatur County Government** Decaturville, Town of Decherd, City of Dekalb County Government DeWhite Utility

Dickson Housing Authority

Domestic Violence

Intervention Center

Douglas Cherokee Economic Authority Dover, Town of Dresden, City of Dyersburg Electric System East Ridge, City of East TN CSA East TN Development District East TN Foundation Eastside Utility District Elkton, City of Estill Springs, Town of Fairview, City of **Fayette County Government** Fayette County Public Works First TN Development District First Utility of Hawkins County Forest Hill, City of Foundations Associates Four Lake Regional Industrial **Development Authority** Franklin County Highway Franklin Consolidated Housing Authority Franklin County Government Friends Helping Friends Friendship, City of Gallatin Housing Authority Gallaway, City of Gatlinburg, City of Gibson County Government Gibson County Municipal Water Gibson, City of Giles County Government Giles County 911 Gladeville Utility District Gleason, City of Good Neighbor Mission and Crisis Center Goodwill Industries Knoxville, Inc Gordonsville, Town of Greenbrier, City of **Grundy County Government** Grundy County Highway Grundy Emergency Medical Services Hamblen County Government Hamilton County 911 Hamilton County CSA Hardin County Government Hardin County Skills, Inc. Harriman, City of Hartsville/Trousdale County Government Hawkins County Government Haywood County Government Haywood County Highway

Henderson, City of Henderson County Government Henderson County Highway Henry County Government Henry County Highway Hickman County Government Highland Rim Economic Corporation Hixson Utility District Homeplace, Inc. Homesafe of Sumner, Wilson and Robertson County Hope of East TN **Humboldt Housing Authority** Humboldt, City of **Humphreys County** Government Huntingdon, Town of Jackson Area Council on Alcohol and Drug Dependence Jackson Center for Independent Living James Developmental Center Jasper, Town of Jefferson City Housing Jefferson City, City of Jefferson County Government Jefferson County 911 Johnson County Government Jubilee Community Arts Kimball, Town of Kings Daughters Day Home Kingsport, City of Kingsport Housing and Redevelopment Authority Kingston, City of Kingston Springs, Town of Knox County CSA Knox County Government Knoxville, City of Knoxville-Knox County CAC Lafayette, City of LaFollette Housing Authority Lakeland, City of Lakesite, City of Lakewood, City of Lauderdale County Government Lawrence County Government Lawrence County 911 Lawrence County Chamber of Commerce Lawrenceburg, City of Lawrenceburg Housing Authority Lexington, City of Lexington Electric System

#### **Local Government Plan Participants**

Linden, City of Lobelville, City of Loretto, City of Lynnville, City of Madison County CASA Madison Suburban Utility Manchester Housing Authority Marion County 911 Marion County Government Marion County Highway Martin, City of Mason, Town of McKenzie, City of McMinn County Government McMinnville, City of McNairy County Development Services McNairy County Government Medina, City of Memphis and Shelby County Memphis Center for Independent Living Mental Health Association of Middle TN Metropolitan Inter-Faith Association Mid-Cumberland CAA Mid-Cumberland CHA Mid-Cumberland HRA Mid-East CAA Mid-TN Supported Living, Inc. Midtown Mental Health Center Milan, City of Milan Public Utilities Minor Hill, City of Minor Hill Water Utility District Monteagle, Town of Morgan County Government Morgan County Highway Morgan County Solid Waste Mt. Carmel - Hawkins SCC Mt. Pleasant Power System Murfreesboro Electric Department NAMI TN – Knoxville Nashville Cares Nashville Thermal Transfer Corporation National Healthcare for the Homeless Council **New Directions** New Horizons Corporation New Johnsonville, City of

North Utility of Decatur/ Benton County Northeast Community Services Agency Northeast Henry County Utility Northwest CHA Northwest Dyersburg Utility Northwest TN Economic **Development Council** Northwest TN Head Start Oak Ridge, City of Oak Ridge Housing Authority Obion County Government Obion County Highway Old Hickory Utility Orange Grove Center Orlinda, City of Overton County Government Paris, City of Park Center, Inc. Parsons, City of Partners in Placement Pathfinders, Inc. Pegram, Town of Perry County Highway Petersburg, Town of Pleasant View, Town of Portland, City of Puryear, City of Putnam County Government Rape and Sexual Abuse Center Red Bank, City of Reelfoot Lake Regional Utility and Planning District Rhea County Government Rhea Medical Center Rhea Richland Senior Neighbors, Inc. Riceville Utility District Ridgetop, City of Ripley, City of Ripley Gas/Water Roane County Government Roane County 911 Roane County Utility District Robertson County Government Rochelle Center Rossville, Town of Rutherford County Adult Action Center Rutherford, Town of Safe Space Savannah, City of Scott County Government

Scotts Hill, Town of

Second South Cheatham Utility District Senior Citizens, Inc. Seguatchie County Government Sequatchie Valley EMS, Inc. Sequatchie Valley Planning Serenity Recovery Center Sertoma Center Sevierville Water Department Sexual Assault Crisis CNT Sharon, City of Shelby County 911 Shelby Residential and Vocational Services. Inc. Shelter, Inc. Signal Centers Siskin Foundation Smith County Government Smith County Highway Smithville, City of Smithville Electric System Soddy-Daisy Falling Water South Carthage, Town of South Central CSA South Central TN **Development District** South Central Tourism South Pittsburg, City of Southeast Mental Health Center Southeast Regional CHA Southeast TN Development District Southwest CHA Sparta Electric and Water System Springfield, City of St. Joseph, City of Statewide Independent Living Council of TN Stewart County Government Stewart County Highway Sullivan County 911 Sweetwater, City of Team Evaluation Assessment and Management Team Evaluation Center Temporary Residence for Adolescents and Crisis TN Alcohol and Drug Association TN Arts Center of Cannon County TN Association of County Executives TN Business Enterprises TN Center for Nursing, Inc.

TN County Commissioners

Association

TN Conference of Social Welfare TN County Highway Officials **TN County Services** Association TN Historical Society TN Mental Health Consumers Association TN School Boards Association TN Secondary School Athletic Association TN State Museum Foundation TN State Veterans Home -Humboldt TN Veterans Home TN Victims Coalition **Tipton County Government** Tipton County 911 District Tiptonville. Town of Trov. Town of Tullahoma Housing Authority Tullahoma Utilities Twenty-first Drug Task Force Ujima House Unicoi, Town of Union City Electric System Upper Cumberland CHA Upper Cumberland **Development District** Upper East TN Human Resource Agency **Urban Housing Solutions** Volunteer Memphis Walden, Town of Warren County Government Wartburg, City of Wartrace, Town of Waverly Housing Authority Waynesboro, City of Weakley County Government Weakley County 911 Weakley County Municipal Electric System Webb Creek Utility West Eight County Association of SCDs West Overton Utility West TN Special Technical Access Resource White Bluff, City of Whitehaven Southwest Mental Health Center Whitwell, City of Winchester, City of Woodbury Housing Authority

New Market Utility District

## **Employee Assistance Program**

The EAP provides counseling and referral services for personal and workplace problems. Eligible employees and their dependents may receive up to six counseling sessions per problem episode at no direct cost. If more intensive treatment is needed, individuals may receive care through their insurance plan's mental health or substance abuse coverage. Training programs include employee orientations and supervisory training classes on the EAP services. Personal and professional growth seminars are held in nine locations across the state quarterly and upon request by agencies, departments and schools.

The program is available to all state and higher education employees/dependents who are eligible to participate in the State Group Insurance Program and all

local education and local government employees who participate in a state-sponsored health plan.

United Behavioral Health reported 10,503 members accessing EAP services for the year, an increase from 8,170 in 2001. Of those, 97 percent were new cases.

Participation in consultation and training services continues to be in high demand. Agencies, departments and schools contacted the EAP to provide assistance to staff units. A total of 540 hours were spent in training activities reaching over 7,000 employees. Critical stress debriefings have become a mainstay of the program with managers requesting the EAP to come onsite to address problems facing their work group. A total of 21 sessions were held involving 292 employees.

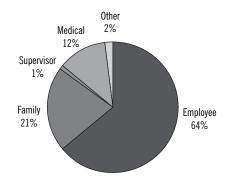
#### 2002 Employee Utilization

Counseling Services Utilization	5.2%
Training Utilization	5.0%

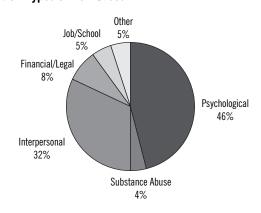
#### **EAP Referral Utilization by Plan**

State Plan	71%
Local Education Plan	18%
Local Government Plan	11%

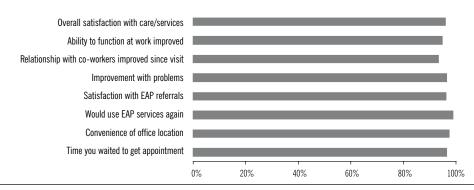
#### **Source of New Cases**



## **Problem Types of New Cases**



#### **EAP Client Office Session Questionnaire Responses**



Total: 465

The management of mental health and substance abuse benefits through United Behavioral Health for the Integrated Employee Assistance and Behavioral Health program has continued to result in patients receiving care in more clinically appropriate and less costly settings.

As noted in the data, inpatient utilization, as reflected in admissions and days of care per 1,000 plan members

increased slightly from 2000 to 2001. Partial hospital rates and intensive outpatient rates also increased since 2000. However, through a combination of improved benefit design and improved clinical management, quality and access to appropriate levels of care continues to improve as well as contributing to a substantial decrease in cost overall.

# Mental Health and Substance Abuse Outpatient Utilization — PPO and POS Combined Plans

	NUMBER OF PATIENTS REVIEWED		SESSIONS PER 1,000*	
	2002	2001	2002	2001
Outpatient	9,005	7,674	196.9	179.7
Intensive Outpatient	318	143	12.5	8.3
Partial Hospitalization	85	38	3.3	2.2

# Mental Health and Substance Abuse Inpatient Utilization — PPO and POS Combined Plans

	2002	2001
Number of Cases Reviewed	501	362
Admissions per 1000*	2.6	1.8
Days per 1,000*	16.5	11.4

# Total Utilization and Cost Summary — PPO and POS Combined Plans

		AMOUNT PAID 2002
Outpatient Sessions	37,418	\$1,214,274
Intensive Outpatient Sessions	2,996	373,443
Inpatient Days	3,143	1,282,772
		\$2,870,489

<sup>\*</sup>per 1,000 covered individuals

## **Medicare Supplement Program**

Since January 1989, the state has maintained a benefits program for Medicare-eligible, retired teachers and state employees. The program involves two elements: the sponsorship of Medicare supplement coverage and the provision of financial support for participating retirees.

Under the present structure, the Medicare Supplement Program offers three benefit options. Plans One and Two were changed at the beginning of 1998 to comply with standard plan requirements established by the National Association of Insurance Commissions (NAIC). Plan One matches the NAIC level D benefits. Plan Two offers level H benefits. Based upon action taken by the State Insurance Committee in September 2000, qualified retirees were offered the opportunity to select a third option. Plan Three provides benefits that supplement Medicare with the major portion of benefits being paid for prescription drugs. If Medicare benefits exceed Plan Three maximum payments, no benefits will be provided by Plan Three.

For 2002, the average enrollment in Plan One was 4,448. Plan Two enrollment averaged 14,300. Total enrollment increased about one percent compared to 2001. Enrollment in Plan Three was 2,525 at year end.

The contract with BlueCross BlueShield for this coverage has contained a requirement that excess premiums be refunded to the state program on behalf of participating retirees. Half the excess premiums are returned at the end of the year; the balance at the end of the contract. Through the end of 2002, over \$27.5 million had been returned to the state under this contract requirement that was added at the beginning of 1992. These funds have

resulted in reduced premiums for participating retirees through direct payment of part of the monthly retiree contribution. For 2001, the program was changed to a self-insured plan with payment of an administrative fee to BlueCross to pay for claims processing and customer service. Funds previously returned to the state or resulting from the 2001 year operation have been obligated to establish reserves for incurred but unreported claims and for claims expense fluctuations. By making these changes, administrative expenses were lowered, premium taxes were avoided and premium levels were more closely matched to anticipated benefit payments.

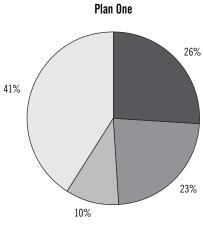
For 2002, Plan One premium remained unchanged and Plan Two contributions increased by 6.8 percent.

The state's financial support is based on a retiree's length of service. Retired teachers and state employees receive \$40 a month toward their premium if they have 30 or more years of service. For 20 to 29 years of service, they receive \$30 a month; for 15 to 19 years of service, they receive \$20 per month. The current support levels were set in July 1998.

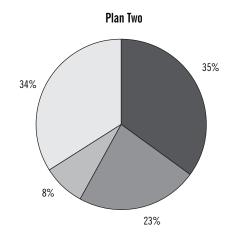
This support is provided to Medicare Supplement Program participants and to retired teachers in school districts which sponsor employee medical plans and permit Medicare eligible retirees to continue coverage during retirement.

For 2002, financial support was provided to about 17,196 retirees each month, with an estimated annual cost of \$6.9 million.

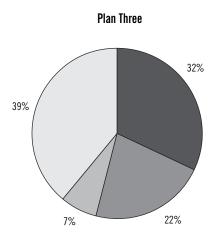
## Retiree Medicare Supplement Enrollment — December 2002



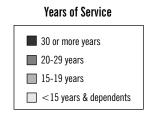
Total Members: 4,517



Total Members: 14,319



Total Members: 2,525



## **Financial Statements**

The following unaudited financial statements presented on pages 29-40 for the State Plan, Local Education Plan, Local Government Plan and Medicare Supplement Program disclose the financial position and the results of operations for the year ended June 30, 2002. The Department of Finance and Administration, Division of Insurance Administration prepared these statements which summarize transactions for all coverages available

through each plan. The complete financial statements, accompanying notes and supplemental schedules are included in the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee. The CAFR was prepared by the Department of Finance and Administration, Division of Accounts and was audited by the Comptroller of the Treasury, Division of State Audit.

#### State Plan — Comparative Statement of Net Assets

	30-JUN-02	30-JUN-01
Assets		
Cash	\$ 47,562,746	\$ 68,331,949
Insurance Accounts Receivable	17,732	16,863
Accounts Receivable	 2,008,247	188,849
Total Assets	\$ 49,588,725	\$ 68,537,661
Liabilities		
Accrued Liabilities	\$ 45,536,866	\$ 42,468,950
Accounts Payable	687,691	886,540
Deferred Revenue	 22,522,809	17,724,546
Total Liabilities	\$ 68,747,366	\$ 61,080,036
Net Assets		
Unrestricted (Deficit)	\$ (19,158,641)	\$ 7,457,625
Total Net Assets	\$ (19,158,641)	\$ 7,457,625

## State Plan — Comparative Statement of Revenues, Expenses, and Changes in Net Assets

	30-JUN-02	30-JUN-01
Operating Revenues		
Premiums	\$ 379,904,346	\$ 284,209,511
Other	21,708	37,621
Total Operating Revenues	\$ 379,926,054	\$ 284,247,132
Operating Expenses		
Benefits/Claims	\$ 373,217,745	\$ 279,961,520
Less: Insurance Recoveries	(8,157,250)	(2,989,701)
Administrative Services	3,054,931	2,594,611
Contract Services	33,978,770	26,200,162
Insurance Premiums	 6,290,066	16,868,300
Total Operating Expenses	\$ 408,384,262	\$ 322,634,892
Operating Income (Loss)	\$ (28,458,208)	\$ (38,387,760)
Non-Operating Revenues		
Interest Income	\$ 1,391,942	\$ 4,452,326
Total Non-Operating Revenues	\$ 1,391,942	\$ 4,452,326
Income (Loss) Before Transfers	\$ (27,066,266)	\$ (33,935,434)
Transfers from General Fund	 450,000	409,095
Change in Net Assets	\$ (26,616,266)	\$ (33,526,339)
Net Assets, July 1	 7,457,625	40,983,964
Net Assets, June 30	\$ (19,158,641)	\$ 7,457,625

## State Plan — Comparative Statement of Cash Flows

Cash Flows From Operating Activities           Receipts from Interfund Services Provided         \$ 242,998,112         \$ 191,019,499           Receipts from Customers and Users         153,245,323         136,384,530           Payments to Suppliers         (415,799,648)         (353,034,211)           Payments for Interfund Services Used         (3,054,932)         (2,594,611)           Net Cash From (Used For) Operating Activities         (22,611,145)         \$ (28,224,793)           Cash Flows From Noncapital Financing Activities           Transfers In         \$ 450,000         \$ 409,095           Net Cash From Noncapital Financing Activities           Interest Received         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash           Provided (Used) by Operating Activities           Operating Income (Loss)		30-JUN-02	30-JUN-01
Receipts from Customers and Users         153,245,323         136,384,530           Payments to Suppliers         (415,799,648)         (353,034,211)           Payments for Interfund Services Used         (3,054,932)         (2,594,611)           Net Cash From (Used For) Operating Activities         \$ (22,611,145)         \$ (28,224,793)           Cash Flows From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Net Cash From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 1,645,766           Increase (Decrease) in Deferred Revenue         4,798,263 <td>Cash Flows From Operating Activities</td> <td></td> <td></td>	Cash Flows From Operating Activities		
Payments to Suppliers         (415,799,648)         (353,034,211)           Payments for Interfund Services Used         (3,054,932)         (2,594,611)           Net Cash From (Used For) Operating Activities         (22,611,145)         (28,224,793)           Cash Flows From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Net Cash From Noncapital Financing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         47,562,746         68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Increase (Decrease in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adj	Receipts from Interfund Services Provided	\$ 242,998,112	\$ 191,019,499
Payments for Interfund Services Used         (3,054,932)         (2,594,611)           Net Cash From (Used For) Operating Activities         (22,611,145)         (28,224,793)           Cash Flows From Noncapital Financing Activities         450,000         409,095           Net Cash From Noncapital Financing Activities         450,000         409,095           Net Cash From Investing Activities         1,391,942         4,452,326           Interest Received         1,391,942         4,452,326           Net Cash From Investing Activities         1,391,942         4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         (20,769,203)         (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         47,562,746         68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         (28,458,208)         (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         (28,458,208)         (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         (1,820,267)         144,536           Increase (Decrease) in Accounts Receivable         (1,820,267)         144,536           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708 <td>Receipts from Customers and Users</td> <td>153,245,323</td> <td>136,384,530</td>	Receipts from Customers and Users	153,245,323	136,384,530
Net Cash From (Used For) Operating Activities         \$ (22,611,145)         \$ (28,224,793)           Cash Flows From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Net Cash From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Cash Flows From Investing Activities         \$ 1,391,942         \$ 4,452,326           Interest Received         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Activities         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         <	Payments to Suppliers	(415,799,648)	(353,034,211)
Cash Flows From Noncapital Financing Activities           Transfers In         \$ 450,000         \$ 409,095           Net Cash From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Cash Flows From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Payments for Interfund Services Used	 (3,054,932)	(2,594,611)
Transfers In Net Cash From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Cash Flows From Investing Activities Interest Received         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Net Cash From (Used For) Operating Activities	\$ (22,611,145)	\$ (28,224,793)
Net Cash From Noncapital Financing Activities         \$ 450,000         \$ 409,095           Cash Flows From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconcilitation of Operating Income to Net Cash         Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)           to Net Cash From Operating Activities         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         \$ (869,067)         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Cash Flows From Noncapital Financing Activities		
Cash Flows From Investing Activities           Interest Received         \$ 1,391,942         \$ 4,452,326           Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         to Net Cash From Operating Activities         (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Transfers In	\$ 450,000	\$ 409,095
Interest Received   \$ 1,391,942   \$ 4,452,326     Net Cash From Investing Activities   \$ 1,391,942   \$ 4,452,326     Net Increase (Decrease) in Cash and Cash Equivalents   \$ (20,769,203)   \$ (23,363,372)     Cash and Cash Equivalents, July 1   68,331,949   91,695,321     Cash and Cash Equivalents, June 30   \$ 47,562,746   \$ 68,331,949     Reconciliation of Operating Income to Net Cash   Provided (Used) by Operating Activities   \$ (28,458,208)   \$ (38,387,759)     Adjustments to Reconcile Operating Income (Loss)   \$ (28,458,208)   \$ (38,387,759)     to Net Cash From Operating Activities   \$ (1,820,267)   \$ 144,536     Increase (Decrease) in Accounts Receivable   \$ (1,820,267)   \$ 144,536     Increase (Decrease) in Deferred Revenue   4,798,263   2,333,708     Total Adjustments   \$ 5,847,063   \$ 10,162,966	Net Cash From Noncapital Financing Activities	\$ 450,000	\$ 409,095
Net Cash From Investing Activities         \$ 1,391,942         \$ 4,452,326           Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash         Provided (Used) by Operating Activities         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           to Net Cash From Operating Activities         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Cash Flows From Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents         \$ (20,769,203)         \$ (23,363,372)           Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash           Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)           to Net Cash From Operating Activities         (Increase) Decrease in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Interest Received	\$ 1,391,942	\$ 4,452,326
Cash and Cash Equivalents, July 1         68,331,949         91,695,321           Cash and Cash Equivalents, June 30         \$ 47,562,746         \$ 68,331,949           Reconciliation of Operating Income to Net Cash           Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)           to Net Cash From Operating Activities         (Increase) Decrease in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Net Cash From Investing Activities	\$ 1,391,942	\$ 4,452,326
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities Operating Income (Loss)  Adjustments to Reconcile Operating Income (Loss)  to Net Cash From Operating Activities  (Increase) Decrease in Accounts Receivable Increase (Decrease) in Accounts Payable Increase (Decrease) in Deferred Revenue Total Adjustments  \$ 47,562,746 \$ 68,331,949  \$ (28,458,208) \$ (38,387,759)  \$ (38,387,759)  \$ (1,820,267) \$ 144,536  \$ 2,869,067 7,684,722  \$ Increase (Decrease) in Deferred Revenue \$ 4,798,263 2,333,708  \$ 5,847,063 \$ 10,162,966	Net Increase (Decrease) in Cash and Cash Equivalents	\$ (20,769,203)	\$ (23,363,372)
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities Operating Income (Loss) \$ (28,458,208) \$ (38,387,759)  Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities (Increase) Decrease in Accounts Receivable \$ (1,820,267) \$ 144,536 Increase (Decrease) in Accounts Payable 2,869,067 7,684,722 Increase (Decrease) in Deferred Revenue 4,798,263 2,333,708 Total Adjustments \$ 5,847,063 \$ 10,162,966	Cash and Cash Equivalents, July 1	68,331,949	91,695,321
Provided (Used) by Operating Activities           Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)         to Net Cash From Operating Activities           (Increase) Decrease in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Cash and Cash Equivalents, June 30	\$ 47,562,746	\$ 68,331,949
Operating Income (Loss)         \$ (28,458,208)         \$ (38,387,759)           Adjustments to Reconcile Operating Income (Loss)           to Net Cash From Operating Activities         \$ (1,820,267)         \$ 144,536           (Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Reconciliation of Operating Income to Net Cash		
Adjustments to Reconcile Operating Income (Loss)  to Net Cash From Operating Activities  (Increase) Decrease in Accounts Receivable \$ (1,820,267) \$ 144,536  Increase (Decrease) in Accounts Payable 2,869,067 7,684,722  Increase (Decrease) in Deferred Revenue 4,798,263 2,333,708  Total Adjustments \$ 5,847,063 \$ 10,162,966	Provided (Used) by Operating Activities		
to Net Cash From Operating Activities           (Increase) Decrease in Accounts Receivable         \$ (1,820,267)         \$ 144,536           Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	Operating Income (Loss)	\$ (28,458,208)	\$ (38,387,759)
(Increase) Decrease in Accounts Receivable       \$ (1,820,267)       \$ 144,536         Increase (Decrease) in Accounts Payable       2,869,067       7,684,722         Increase (Decrease) in Deferred Revenue       4,798,263       2,333,708         Total Adjustments       \$ 5,847,063       \$ 10,162,966	Adjustments to Reconcile Operating Income (Loss)		
Increase (Decrease) in Accounts Payable         2,869,067         7,684,722           Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	to Net Cash From Operating Activities		
Increase (Decrease) in Deferred Revenue         4,798,263         2,333,708           Total Adjustments         \$ 5,847,063         \$ 10,162,966	(Increase) Decrease in Accounts Receivable	\$ (1,820,267)	\$ 144,536
Total Adjustments \$ 5,847,063 \$ 10,162,966	Increase (Decrease) in Accounts Payable	2,869,067	7,684,722
	Increase (Decrease) in Deferred Revenue	4,798,263	2,333,708
Net Cash From (Used For) Operating Activities         \$ (22,611,145)         \$ (28,224,793)	Total Adjustments	\$ 5,847,063	\$ 10,162,966
	Net Cash From (Used For) Operating Activities	\$ (22,611,145)	\$ (28,224,793)

## Local Education Plan — Comparative Statement of Net Assets

		30-JUN-01	
Assets			
Cash	\$	12,267,964	\$ 14,789,255
Accounts Receivable		247,157	99,298
Total Assets	\$	12,515,121	\$ 14,888,553
Liabilities			
Accrued Liabilities	\$	23,942,514	\$ 24,429,538
Accounts Payable		50	4,719
Deferred Revenue		622,194	480,901
Total Liabilities	\$	24,564,758	\$ 24,915,158
Net Assets			
Unrestricted (Deficit)	\$	(12,049,637)	\$ (10,026,605)
Total Net Assets	\$	(12,049,637)	\$ (10,026,605)

## Local Education Plan — Comparative Statement of Revenues, Expenses, and Changes in Net Assets

	30-JUN-02	30-JUN-01
Operating Revenues		
Premiums	\$ 203,362,432	\$ 165,465,994
Other	5,954	_
Insurance Forfeitures	2,045	172
Total Operating Revenues	\$ 203,370,431	\$ 165,466,166
Operating Expenses		
Benefits/Claims	\$ 194,881,991	\$ 163,315,870
Less: Insurance Recoveries	(3,922,450)	(1,739,978)
Administrative Services	1,447,913	1,135,178
Contract Services	17,931,850	14,825,506
Insurance Premiums	_	5,216,172
Total Operating Expenses	\$ 210,339,304	\$ 182,752,748
Operating Income (Loss)	\$ (6,968,873)	\$ (17,286,582)
Non-Operating Revenues		
Interest Income	\$ 306,769	\$ 1,009,658
Total Non-Operating Revenues	\$ 306,769	\$ 1,009,658
Income (Loss) Before Operating Transfer	\$ (6,662,104)	\$ (16,276,924)
Transfers from General Fund	 4,639,072	3,790,057
Change in Net Assets	\$ (2,023,032)	\$ (12,486,867)
Net Assets, July 1	 (10,026,605)	2,460,262
Net Assets, June 30	\$ (12,049,637)	\$ (10,026,605)

## Local Education Plan — Comparative Statement of Cash Flows

	30-JUN-02	30-JUN-01
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 204,394,652	\$ 169,470,184
Payments to Suppliers	(210,413,871)	(178,578,017)
Payments for Interfund Services Used	 (1,447,913)	(1,135,178)
Net Cash From (Used For) Operating Activities	\$ (7,467,132)	\$ (10,243,011)
Cash Flows From Noncapital Financing Activities		
Transfers In	\$ 4,639,072	\$ 3,790,057
Net Cash From Noncapital Financing Activities	\$ 4,639,072	\$ 3,790,057
Cash Flows From Investing Activities		
Interest Received	\$ 306,769	\$ 1,009,658
Net Cash From Investing Activities	\$ 306,769	\$ 1,009,658
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (2,521,291)	\$ (5,443,296)
Cash and Cash Equivalents, July 1	 14,789,255	20,232,551
Cash and Cash Equivalents, June 30	\$ 12,267,964	\$ 14,789,255
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (6,968,873)	\$ (17,286,582)
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash From Operating Activities		
(Increase) Decrease in Accounts Receivable	\$ (147,859)	\$ 16,607
Increase (Decrease) in Accounts Payable	(491,693)	6,915,971
Increase (Decrease) in Deferred Revenue	 141,293	110,993
Total Adjustments	\$ (498,259)	\$ 7,043,571
Net Cash From (Used For) Operating Activities	\$ (7,467,132)	\$ (10,243,011)

#### Local Education Plan — Required Supplementary Information

The table below illustrates how the Local Education Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Education Group Insurance Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year), some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year,

some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years, some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

#### Ten-Year Claims Development Information (expressed in thousands)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(1)	Required contribution and										
	investment revenue earned	63,291	75,715	79,410	83,340	95,185	109,968	123,419	126,918	166,476	203,669
(2)	Unallocated expenses	1,234	2,224	1,794	3,722	3,768	5,193	6,685	13,261	15,961	19,380
(3)	Estimated claims and expenses	S,									
	end of policy year, net incurred	*	*	*	*	*	*	*	141,005	185,219	*
(4)	Net paid (cumulative) as of:										
	End of policy year	*	*	*	*	*	*	*	124,084	162,993	*
	One year later	*	*	*	*	*	*	*	139,458		
	Two years later	*	*	*	*	*	*	*			
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(5)	Reestimated net incurred										
	claims and expense:										
	End of policy year	*	*	*	*	*	*	*	141,005	185,219	*
	One year later	*	*	*	*	*	*	*	139,401		
	Two years later	*	*	*	*	*	*	*			
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(6)	Increase (decrease) in estimate	ed									
	net incurred claims and expens	ses									
	from end of policy year	0	0	0	0	0	0	0	(1,604)	0	*
*	Data Not Available										

## Local Government Plan — Comparative Statement of Net Assets

	30-JUN-02			30-JUN-01		
Assets						
Cash	\$	910,846	\$	11,665,073		
ACH Debit Receivable		22,069		16,262		
Insurance Accounts Receivable		2,328		77		
Accounts Receivable		292,759		64,214		
Total Assets	\$	1,228,002	\$	11,745,626		
Liabilities						
Accrued Liabilities	\$	11,806,707	\$	9,250,149		
Accounts Payable		966		7,668		
Deferred Revenue		94,821		69,039		
Total Liabilities	\$	11,902,494	\$	9,326,856		
Net Assets						
Unrestricted (Deficit)	\$	(10,674,492)	\$	2,418,770		
Total Net Assets	\$	(10,674,492)	\$	2,418,770		

## Local Government Plan — Comparative Statement of Revenues, Expenses, and Changes in Net Assets

	30-JUN-02	30-JUN-01
Operating Revenues		
Premiums	\$ 91,103,849	\$ 57,685,216
Other	2,484	1,766
Insurance Forfeitures	_	(171)
Total Operating Revenues	\$ 91,106,333	\$ 57,686,811
Operating Expenses		
Benefits/Claims	\$ 96,423,835	\$ 61,323,544
Less: Insurance Recoveries	(1,427,311)	(477,782)
Administrative Services	666,417	519,334
Contract Services	8,729,895	5,795,815
Insurance Premiums	 _	1,400,554
Total Operating Expenses	\$ 104,392,836	\$ 68,561,465
Operating Income (Loss)	\$ (13,286,503)	\$ (10,874,654)
Non-Operating Revenues		
Interest Income	\$ 193,241	\$ 906,337
Total Non-Operating Revenues	\$ 193,241	\$ 906,337
Change in Net Assets	\$ (13,093,262)	\$ (9,968,317)
Net Assets, July 1	2,418,770	12,387,087
Net Assets, June 30	\$ (10,674,492)	\$ 2,418,770

## Local Government Plan — Comparative Statement of Cash Flows

	30-JUN-02	30-JUN-01
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 91,364,521	\$ 60,246,486
Payments to Suppliers	(101,645,572)	(65,252,552)
Payments for Interfund Services Used	(666,417)	(519,334)
Net Cash From (Used For) Operating Activities	\$ (10,947,468)	\$ (5,525,400)
Cash Flows From Investing Activities		
Interest Received	\$ 193,241	\$ 906,337
Net Cash From Investing Activities	\$ 193,241	\$ 906,337
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (10,754,227)	\$ (4,619,063)
Cash and Cash Equivalents, July 1	11,665,073	16,284,136
Cash and Cash Equivalents, June 30	\$ 910,846	\$ 11,665,073
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (13,286,503)	\$ (10,874,654)
Adjustments to Reconcile Operating Income (Loss)		
to Net Cash From Operating Activities		
(Increase) Decrease in Accounts Receivable	\$ (236,603)	\$ 11,592
Increase (Decrease) in Accounts Payable	2,549,856	5,341,934
Increase (Decrease) in Deferred Revenue	25,782	(4,272)
Total Adjustments	\$ 2,339,035	\$ 5,349,254
Net Cash From (Used For) Operating Activities	\$ (10,947,468)	\$ (5,525,400)

#### Local Government Plan — Required Supplementary Information

The table below illustrates how the Local Government Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Government Group Insurance Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year), some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year,

some of these amounts are unavailable. (5) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years, some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

#### Ten-Year Claims Development Information (expressed in thousands)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(1)	Required contribution and										
	investment revenue earned	30,633	41,819	40,589	34,857	34,944	33,846	38,187	37,728	58,593	91,297
(2)	Unallocated expenses	621	1,267	852	1,425	1,184	1,335	1,732	4,251	6,315	9,396
(3)	Estimated claims and expenses	3									
	end of policy year, net incurred	*	*	*	*	*	*	*	41,871	84,018	*
(4)	Net paid (cumulative) as of:										
	End of policy year	*	*	*	*	*	*	*	36,846	73,936	*
	One year later	*	*	*	*	*	*	*	41,796		
	Two years later	*	*	*	*	*	*	*			
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(5)	Reestimated net incurred										
	claims and expenses:										
	End of policy year	*	*	*	*	*	*	*	41,871	84,018	*
	One year later	*	*	*	*	*	*	*	41,782		
	Two years later	*	*	*	*	*	*	*			
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(6)	Increase (decrease) in estimate	ed									
	net incurred claims and expens	ses									
	from end of policy year	0	0	0	0	0	0	0	(89)	0	*

## Medicare Supplement Program— Comparative Statement of Net Assets

	30-JUN-02	30-JUN-01
Assets		
Cash	\$ 25,942,972	\$ 11,352,571
Total Assets	\$ 25,942,972	\$ 11,352,571
Liabilities		
Accrued Liabilities	\$ 4,866,647	\$ 1,027,306
Deferred Revenue	 416,897	236,587
Total Liabilities	\$ 5,283,544	\$ 1,263,893
Net Assets		
Unrestricted	\$ 20,659,428	\$ 10,088,678
Total Net Assets	\$ 20,659,428	\$ 10,088,678

## Medicare Supplement Program— Comparative Statement of Revenues, Expenses and Changes in Net Assets

		30-JUN-01	
Operating Revenues			
Premiums	\$	43,619,421	\$ 19,954,259
Total Operating Revenues	\$	43,619,421	\$ 19,954,259
Operating Expenses			
Benefits/Claims	\$	33,820,700	\$ 10,292,063
Administrative Services		5,298	43
Contract Services		4,881,472	2,375,219
Total Operating Expenses	\$	38,707,470	\$ 12,667,325
Operating Income	\$	4,911,951	\$ 7,286,934
Non-Operating Revenues			
Interest Income	\$	396,199	\$ 190,884
Total Non-Operating Revenues	\$	396,199	\$ 190,884
Income Before Transfers	\$	5,308,150	\$ 7,477,818
Operating Transfer From General Fund		5,262,600	2,610,860
Change in Net Assets	\$	10,570,750	\$ 10,088,678
Net Assets, July 1		10,088,678	_
Net Assets, June 30	\$	20,659,428	\$ 10,088,678

## Medicare Supplement Program — Comparative Statement of Cash Flows

	30-JUN-02	30-JUN-01
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 43,799,731	\$ 20,190,846
Payments to Suppliers	(34,862,831)	(11,639,976)
Payments for Interfund Services Used	 (5,298)	(43)
Net Cash From Operating Activities	\$ 8,931,602	\$ 8,550,827
Cash Flows From Noncapital Financing Activities		
Transfers In	\$ 5,262,600	\$ 2,610,860
Net Cash From Noncapital Financing Activities	\$ 5,262,600	\$ 2,610,860
Cash Flows From Investing Activities		
Interest Received	\$ 396,199	\$ 190,884
Net Cash From Investing Activities	\$ 396,199	\$ 190,884
Net Increase in Cash and Cash Equivalents	\$ 14,590,401	\$ 11,352,571
Cash and Cash Equivalents, July 1	 11,352,571	
Cash and Cash Equivalents, June 30	\$ 25,942,972	\$ 11,352,571
Reconciliation of Operating Income to Cash		
Provided by Operating Activities		
Operating Income	\$ 4,911,951	\$ 7,286,934
Adjustments to Reconcile Operating Income to Net Cash		
From Operating Activities		
Increase (Decrease) in Accounts Payable	\$ 3,839,341	\$ 1,027,306
Increase (Decrease) in Deferred Revenue	 180,310	236,587
Total Adjustments	\$ 4,019,651	\$ 1,263,893
Net Cash From Operating Activities	\$ 8,931,602	\$ 8,550,827

#### Medicare Supplement Program — Required Supplementary Information

The table below illustrates how the Medicare Supplement Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Medicare Supplement Insurance Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year; beginning January 1, 2001, Medicare

Supplement Insurance coverage became self-insured. (5) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

#### Ten-Year Claims Development Information (expressed in thousands)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(1)	Required contribution and										
	investment revenue earned	*	*	*	*	*	*	*	*	20,145	44,015
(2)	Unallocated expenses	*	*	*	*	*	*	*	*	2,375	4,887
(3)	Estimated claims and expenses,										
	end of policy year, net incurred	*	*	*	*	*	*	*	*	28,163	**
(4)	Net paid (cumulative) as of:										
	End of policy year	*	*	*	*	*	*	*	*	23,657	**
	One year later	*	*	*	*	*	*	*	*		
	Two years later	*	*	*	*	*	*	*	*		
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(5)	Reestimated net incurred										
	claims and expenses:										
	End of policy year	*	*	*	*	*	*	*	*	28,163	**
	One year later	*	*	*	*	*	*	*	*		
	Two years later	*	*	*	*	*	*	*	*		
	Three years later	*	*	*	*	*	*	*			
	Four years later	*	*	*	*	*	*				
	Five years later	*	*	*	*	*					
	Six years later	*	*	*	*						
	Seven years later	*	*	*							
	Eight years later	*	*								
	Nine years later	*									
(6)	Increase (decrease) in estimated										
	net incurred claims and expense	S									
	from end of policy year	0	0	0	0	0	0	0	0	0	**

<sup>\*</sup> Coverage was fully insured through December 2000

<sup>\*\*</sup> Data not available